

ARIZONA

MONTHLY FISCAL HIGHLIGHTS

July 2006

Summary

Preliminary June General Fund revenue collections were \$1.08 billion, which was an increase of 12.9% from June 2005. For all of FY 2006, preliminary General Fund revenue collections totaled \$9.26 billion. This amount was \$107.9 million above the recently enacted state budget forecast for the year. Year-end book closing is still occurring, and these preliminary numbers are subject to change.

FY 2006 revenues were \$1.31 billion, or 16.5%, more than FY 2005. This is the second year of substantial revenue increases, coming on top of an 18.8% General Fund growth rate in FY 2005.

All major tax categories demonstrated continued growth. Sales tax collections grew by 16.7%, while individual income tax increased by 24.1%, and corporate income tax increased by 24.6%. The same trends exhibited in the prior fiscal year, including a strong real estate market for most of the fiscal year, high levels of capital gains and dividends, and corporate and small business profitability, are believed to have contributed to this continued growth.

The FY 2006 General Appropriation Act requires any revenues above the May 2005 forecast to be deposited into the Budget Stabilization Fund (BSF). Permanent law caps BSF balances at 7% of General Fund revenue, which equates to \$648.3 million. The BSF already has a balance of \$501.6 million, including excess revenues from the first half of FY 2006 deposited in February. The FY 2006 General Appropriation Act requires JLBC Staff and the Governor's Office of Strategic Planning and Budgeting to report excess revenues for the second half of FY 2006 by July 31st. Given the 7% cap and existing balance, the two offices have agreed that \$146.7 million will be deposited into the fund to bring its total balance to \$648.3 million.

In other fiscal news this month, the JLBC and the JCCR met on July 27th. A summary of the meetings can be found on pages 5 - 7. The July Monthly Fiscal Highlights also includes a summary of recent statutory reports submitted to JLBC (*see page 7*).

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State of Arizona

General Fund Revenue: Change from Previous Year and June Forecast

June 2006

	Current Month			FY 2006 YTD (Twelve Months)				
	Actual	Change From June 2005		Actual	Change from			
	June 2006	Amount	Percent	June 2006	Amount	Percent	Revised Forecast	
							Amount	Percent
<u>Taxes</u>								
Sales and Use	383,264,977	\$49,751,333	14.9 %	\$4,273,358,451	\$612,189,828	16.7 %	(\$19,652,149)	(0.5) %
Income - Individual	334,443,992	51,901,793	18.4	3,689,373,373	715,794,273	24.1	118,947,573	3.3
- Corporate	149,480,737	52,077,212	53.5	874,219,473	172,360,188	24.6	29,245,973	3.5
Property	5,509,337	2,293,226	71.3	24,998,760	(246,862)	(1.0)	1,998,760	8.7
Luxury	5,561,874	(989,435)	(15.1)	66,732,368	2,286,295	3.5	732,368	1.1
Insurance Premium	72,415,137	7,393,919	11.4	373,701,860	14,949,459	4.2	1,612,360	0.4
Estate	38,769	(1,263,599)	(97.0)	11,683,602	(19,552,464)	(62.6)	(3,316,398)	(22.1)
Other Taxes	53,404	5,287	11.0	1,241,971	(1,338,224)	(51.9)	521,971	72.5
Sub-Total Taxes	\$950,768,227	\$161,169,736	20.4 %	\$9,315,309,858	\$1,496,442,493	19.1 %	\$130,090,458	1.4 %
<u>Other Revenue</u>								
Lottery	7,012,700	(1,637,500)	(18.9)	45,323,800	9,262,000	25.7	321,200	0.7
License, Fees and Permits	3,330,057	30,598	0.9	33,252,192	3,758,815	12.7	(4,109,808)	(11.0)
Interest	10,232,839	2,838,716	38.4	64,289,469	34,410,149	115.2	14,289,469	28.6
Sales and Services	4,673,382	(4,708,852)	(50.2)	51,475,158	2,512,066	5.1	(691,842)	(1.3)
Other Miscellaneous	16,902,874	(17,378,668)	(50.7)	38,220,418	(16,356,981)	(30.0)	(13,079,582)	(25.5)
Disproportionate Share	91,841,500	(20,164,445)	(18.0)	91,841,500	(20,164,445)	(18.0)	0	0.0
Transfers and Reimbursements	2,089,338	(18,406,003)	(89.8)	20,987,846	(52,231,642)	(71.3)	(18,912,154)	(47.4)
Sub-Total Other Revenue	136,082,690	(59,426,154)	(30.4) %	345,390,383	(38,810,038)	(10.1) %	(22,182,717)	(6.0) %
TOTAL BASE REVENUE	\$1,086,850,917	\$101,743,582	10.3 %	\$9,660,700,241	\$1,457,632,455	17.8 %	\$107,907,741	1.1 %
<u>One-Time Revenue</u>								
Urban Revenue Sharing	(35,435,744)	(4,346,362)	14.0	(425,228,927)	(52,156,348)	14.0	(27)	0.0
'05 Budget Balancing Transfers	0	(175,632)	(100.0)	0	(120,122,353)	(100.0)	0	--
'07 Disproportionate Share	16,162,900	16,162,900	--	16,162,900	16,162,900	--	0	0.0
'06 In-Lieu Transfer	10,000,000	10,000,000	--	10,000,000	10,000,000	--	0	0.0
Sub-Total Transfers In	(9,272,844)	21,640,906	(70.0) %	(399,066,027)	(146,115,801)	57.8 %	(27)	0.0 %
TOTAL REVENUE	\$1,077,578,073	\$123,384,488	12.9 %	\$9,261,634,214	\$1,311,516,654	16.5 %	\$107,907,714	1.2 %

JUNE REVENUES

Preliminary **Sales Tax** collections were \$383.3 million in June, or 14.9%, above June of last year. For FY 2006, total collections were \$4.27 billion. This amount was \$612.2 million (16.7%) higher than FY 2005. The following table displays the June and FY 2006 growth rates for the major categories:

Table 2**Sales Tax Growth Rates**

	<u>June</u>	<u>FY 2006</u>
Retail	12.4%	14.5%
Contracting	25.2%	27.5%
Utilities	20.2%	12.6%
Use	(15.9)%	17.9%
Restaurant & Bar	10.2%	12.4%

Of the major categories, total FY 2006 contracting collections increased 27.5% over FY 2005. This considerable increase was largely due a boom in the construction industry. In addition, FY 2006 use tax collections grew at a rate of 17.9%, reflecting large energy price increases over the past year; however, June use tax revenues were (15.9)% below last year. This is likely due to a recent decrease in the price of natural gas.

Preliminary **Individual Income Tax** collections were \$334.8 million in June, an 18.4% increase from last June. Total FY 2006 preliminary individual income revenues were \$3.70 billion, or 24.1%, above FY 2005. The following table displays the June and FY 2006 preliminary growth rates for the major categories:

Table 3**Individual Income Tax Growth Rates**

	<u>June</u>	<u>FY 2006</u>
Withholding	18.9%	15.8%
Estimated + Final Payments	36.8%	43.2%
Refunds	69.7%	23.2%

While each category exhibited healthy growth over the course of the year, FY 2006 estimated and final tax payments increased substantially over FY 2005. This largely reflects the strength of the real estate market and the level of capital gains earnings achieved over the past year.

Preliminary **Corporate Income Tax** collections were \$149.5 million in June, which was 53.5% above last year. For FY 2006, total receipts were \$874.2 million, an increase of 24.6% over FY 2005. Revenue collections in FY 2006 were boosted by solid corporate and small business profits.

RECENT ECONOMIC INDICATORS

Revised estimates from the Bureau of Economic Analysis (BEA) indicate that **U.S. Gross Domestic Product (GDP)** advanced at a 5.6% annual rate in 2006's first quarter, the swiftest in almost 3 years. Personal consumption expenditures, exports, equipment and software, and federal government spending led the way. BEA also reported that U.S. corporate profits increased 28.5% from the same quarter a year ago.

After 2 consecutive declines, the **U.S. Index of Leading Economic Indicators** inched 0.1% higher in June. While vendor performance and building permits declined, consumer confidence, average manufacturing hours worked, and new orders for capital goods moved into positive territory.

The Conference Board's **U.S. Consumer Confidence Index** improved 1.0% in June. Although the assessment of current conditions was less favorable, consumers' outlook for the next 6 months was brighter than the prior month and was boosted by expectations for the job market.

Although the 3-month moving average of **U.S. semiconductor billings** dropped a bit in May, it still stood 9.6% above the level from a year ago. The Semiconductor Industry Association (SIA) cited cell phones and flash memory products as key ingredients driving sales higher in 2006.

Although the **U.S. Consumer Price Index (CPI)** increased just 0.2% on a month-to-month basis in June, the 3-month moving average rose 0.5% and was up 4.0% from a year ago. Fuel prices actually dipped in June, but it was a brief interruption in the rising trend. Food prices increased 0.3% in June. Excluding the impact of food and energy costs, the core CPI increased 2.6% from June 2005.

Table 4

General Fund Revenues
Compared to Enacted and Revised Forecasts and FY 2005 Collections
(\$ in Millions)

	<u>FY 2006 Collections</u>	<u>Difference From June 2006 Forecast</u> ^{1/}	<u>Difference From Jan 2006 Forecast</u> ^{2/}	<u>Difference From FY 2005</u>
June	\$ 1,077.6	--	\$ 129.5	\$ 123.4
Year-to Date	\$ 9,261.6	\$ 107.9	\$ 604.5	\$ 1,311.5

^{1/} Enacted FY 2007 budget (June 2006)

^{2/} JLBC January Baseline Budget

Arizona's job market experienced seasonal declines in June, but it continued to show strong growth on a year-over-year basis. **Non-farm employment** was 4.7% above its level from June 2005, a gain of 116,700 positions. Manufacturing contributed 1,500 new jobs in the last 12 months, while the remaining goods-producing sectors – mining and construction – added 1,200 and 23,600 jobs, respectively. Meanwhile, the state's **unemployment rate** edged up by 0.2% to 4.4% in June.

The **Arizona Tourism Barometer** climbed 2.2% in May. While most components registered increases, national park visitation declined from the previous month, with high gasoline prices and wildfires among the potential causes.

The Real Estate Center at Arizona State University reported that the Greater Phoenix **single-family median resale home price** reached a record high of \$267,000 in June. Even so, the year-over-year gain slowed to 6.8%, and the number of single-

family homes sold plummeted (52.7)% from a year ago. The June **townhouse-condominium median price** was \$174,700 in June, down slightly from \$175,000 in May.

The **Arizona Business Conditions Index** dropped (8.9)% in June but remained slightly above the mark of 50 associated with an expanding economy. Deliver times and inventories pushed the index lower, while production and purchases made positive contributions.

The **Department of Corrections' inmate population** increased by an average of 281 inmates per month from April through June. The total population increased by 1,925 inmates from a year ago.

The number of **TANF recipients** decreased (0.7)% to 87,152 in May and was (11.0)% below the level from May 2005. The **AHCCCS caseload** decreased (0.6)% in July from the prior month and was (1.2)% below the level from a year ago.

Table 4

RECENT ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate	June	4.4%	0.2%	(0.3)%
- Jobs	June	2.59 million	(1.2)%	4.7%
- Contracting Tax Receipts (3-month average)	Mar-May	\$76.7 million	3.5%	28.6%
- Retail Sales Tax Receipts (3-month average)	Mar-May	\$166.8 million	(3.7)%	13.1%
- Residential Building Permits - (3-month moving average)				
Single-unit	Mar-May	6,034	9.6%	(14.0)%
Multi-unit	Mar-May	1,171	14.3%	13.1%
- Greater Phoenix Existing Home Sales				
Single-Family	June	5,460	(20.5)%	(52.7)%
Townhouse/Condominium	June	1,035	(29.6)%	(51.3)%
- Greater Phoenix Median Home Sales Price				
Single-Family	June	\$267,000	0.8%	6.8%
Townhouse/Condominium	June	\$174,700	(0.2)%	15.7%
- Arizona Tourism Barometer	May	103.8	2.2%	0.8%
- Phoenix Sky Harbor Air Passengers	May	3.57 million	(0.1)%	0.7%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	April	\$6.90	(5.2)%	9.9%
- Leading Indicators Index	May	118.9	(1.1)%	(0.5)%
- Business Conditions Index (>50 signifies expansion)	June	53.8	(8.9)%	(19.1)%
- Consumer Confidence Index	2 nd Quarter 2006	102.4	(7.2)%	10.0%
- Business Leaders Confidence Index	3 rd Quarter 2006	49.6	(14.5)%	(16.1)%
- Arizona Personal Income	1 st Quarter 2006	\$186.8 billion	1.9%	7.6%
- Arizona Population	July 1, 2005	5.94 million	3.5%	3.5%
- AHCCCS Recipients	July	1,035,635	(0.6)%	(1.2)%
- TANF Recipients	May	87,152	(0.7)%	(11.0)%
- DOC Inmate Growth (3-month average)	Apr-Jun	34,574	281 inmates	1,925 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	1 st Quarter 2006	\$11.4 trillion	5.6%	3.7%
- Consumer Confidence Index	June	105.7	1.0%	(0.5)%
- Leading Indicators Index	June	138.1	0.1%	0.7%
- U.S. Semiconductor Billings (3-month moving average)	Mar-May	\$3.52 billion	(2.1)%	9.6%
- Consumer Price Index (3-month moving average)	Apr-Jun	202.3	0.5%	4.0%

JLBC MEETING

At its July 27, 2006 meeting, the Joint Legislative Budget Committee (JLBC) considered the following issues:

Department of Public Safety – Review of Expenditure Plans for Staffing of Additional Highway Patrol Positions and Sworn Salary Increases – The Committee gave a favorable review of the department's expenditure plan for additional Highway Patrol Personnel and Sworn Officer Salary increases. The Committee requested that DPS report back by November 1, 2006 on an updated salary comparison with the 5 highest paying law enforcement agencies as well as the largest (100+ officers) agencies. As part of the report, the Committee requested the department include information on the new jobs taken by sworn officers who leave DPS.

With the \$5.5 million appropriated to DPS for additional Highway Patrol Personnel in FY 2007, the department plans to hire 46 FTE Positions, of which 41 would be sworn positions.

With the \$2.8 million appropriated to DPS from the Parity Compensation Fund, DPS is proposing to bring all sworn officer classifications within 3.6% of the August 2005 gross pay of the 5 highest paying local agencies. (DPS officers, however, have an extra 5% of their retirement contribution paid by the state compared to the local jurisdictions.) As a result, supervisory related salaries would increase between 9.9% and 16.6%, while officer positions would increase between 6.4% and 9.4%.

Additionally, the Committee expressed concern over DPS' failure to fill sworn officer positions provided in FY 2006. In that year, DPS diverted \$1.2 million that had been provided to add 25 new positions, and instead used the funding for salary increases. Since then, DPS has used \$387,800 from the Parity Compensation Fund to hire 6 of these positions. The department has indicated it will provide JLBC Staff with a long-term plan for filling the remaining positions.

Department of Public Safety – Review of the Gang and Immigration Intelligence Team Enforcement Mission (GITEM) Expenditure Plans – The Committee gave a favorable review of the department's expenditure plan for \$1 million (of their \$10 million appropriation) on license plate readers and expanding their gang tracking database as well as for \$410,000 (of their \$7 million appropriation) to expand their recruiting efforts. The \$10 million appropriation is to be used to expand GITEM at the local level, including the funding of local border personnel and other border security efforts. The \$7 million appropriation is to be used for an additional 100 sworn positions within DPS, including 50 for immigration and border security.

The Committee also required DPS to submit an expanded expenditure plan prior to spending any additional monies above what has been reviewed. In the interim, the department would be allowed to expend up to \$500,000 to hire new staff prior to additional Committee review. The Committee also

requested a timeline for hiring the additional personnel and accomplishing the other objectives of the legislation.

In addition, the Committee recommended that DPS pursue negotiations with a local law enforcement jurisdiction to construct a regional holding facility for illegal immigrants near the Arizona-Mexico border. The purpose of the facility would be to house illegal immigrants until a qualified federal agency takes custody. The Committee also requested DPS to report on the concept of using funding to assist local law enforcement in transporting illegal immigrants to a qualified federal agency when the federal government refuses to take custody in a timely fashion.

Department of Public Safety – Review of the Microwave Communications System Expenditure Plan and Project Timeline – The Committee gave a favorable review of the department's request and plan relating to the Microwave Communications System with the provisions that DPS submit an updated cost estimate on the southern loop and the entire project in its December 31 report, and that DPS request Committee review of any expenditure from the \$1.2 million contingency greater than \$100,000.

The total cost to upgrade their existing analog microwave communications system to a digital system in the southern loop is estimated to be \$12.4 million (\$4.1 million annually from FY 2007 through FY 2009). Based on the department's 3-year expenditure plan, a total of 3 new sites will be constructed in the southern loop, 19 existing sites would be refurbished (3 located outside the southern loop) and digital equipment would be installed on 15 southern sites.

Per an agreement between the Governor and the Legislature, DPS originally anticipated funding the project with \$7.6 million in state appropriations and \$4.6 million in federal Homeland Security funding. The state Office of Homeland Security (OHS), however, recently informed DPS it has already allocated all federal monies received to date. OHS does not know if future federal funding will be sufficient to provide DPS with monies for this project. The Committee requested OHS provide information on its allocation of Homeland Security funds received from the federal government in FY 2006.

Department of Health Services – Review of Behavioral Health Capitation Rate Changes – The Committee gave a favorable review to the Department of Health Services' (DHS) FY 2007 capitation rate adjustments for the behavioral health population with the stipulation that the favorable review does not constitute an endorsement of a supplemental request by the agency. The Committee also directed DHS to report to the Committee by August 31, 2006 with an explanation as to how increased methamphetamine money will be coordinated with the \$3 million appropriated by the Legislature in FY 2007 for increased methamphetamine treatment. The capitation rate adjustment is expected to cost approximately \$900,000 more than what was budgeted for this population in FY 2007, although continued caseload declines may offset this cost.

Department of Health Services – Review of Requested Transfer of Appropriations and Report on Arizona State Hospital Expenditure Plan – The Committee gave a favorable review to the Department of Health Services' (DHS) request to transfer \$538,900 from the Arizona's State Hospital's operating budget to the Sexually Violent Person's Special Line Item. The transfer is technical and will allow the department to implement its Direct Care Worker salary plan.

The Committee also received a summary of DHS' plan to allocate \$3.1 million in salary increases to direct care workers at ASH. According to the department, the Civil and Forensic Hospital will receive \$2.6 million for salary increases to approximately 397 workers, with the remaining \$538,900 going to the Arizona Community Protection and Treatment Center's (ACPTC) approximately 95 employees.

Department of Health Services – Review of Children's Rehabilitative Services Capitation Rate Changes – The Committee gave a favorable review to the Department of Health Services' (DHS) FY 2007 capitation rate adjustments for the children's rehabilitative services population. The capitation rate adjustment is within the department's FY 2007 budget.

AHCCCS – Review of KidsCare Behavioral Health Capitation Rate Changes – The Committee gave a favorable review to the Arizona Health Care Cost Containment System's (AHCCCS) FY 2007 capitation rate adjustments for the behavioral health care portion of the KidsCare and KidsCare Parents population, with the stipulation that the favorable review does not constitute an endorsement of a supplemental request by the agency. The capitation rate adjustment is expected to cost approximately \$200,000 more than what was budgeted for this population in FY 2007.

Department of Economic Security – Review of FY 2007 WIA Expenditure Plan – The Committee gave a favorable review to \$3.1 million of planned FY 2007 Workforce Investment Act (WIA) Grant expenditures. The Department of Economic Security (DES) had submitted for review a total spending plan of \$3.3 million. The Committee, however, deferred consideration of \$250,000 DES has set aside for Master Teacher Programs until it receives more information about the program.

Department of Economic Security – Review of WIA Incentive Funding – The Committee gave a favorable review to the DES plan for spending \$709,600 of WIA incentive funds. The incentive monies expenditure plan is to provide targeted services to increase the healthcare labor force.

Arizona Game and Fish Department – Review of Watercraft Operation Under the Influence Equipment Expenditure Plan – The Committee gave a favorable review to the Arizona Game and Fish Department's \$160,000 expenditure plan for Watercraft OUI Enforcement equipment. The department intends to purchase 2 field station mobile operating command post trailers, each equipped with

evidentiary breath testing instruments. The department anticipates that the trailers will be used mainly on the Colorado River, Lake Powell and Lakes on the Salt River.

Arizona State Retirement System – Review of FY 2007 Information Technology Expenditure Plan – The Committee gave a favorable review to the Arizona State Retirement System's (ASRS) FY 2007 Information Technology (IT) Expenditure Plan. The agency's proposed expenditure plan is in line with the expenditures outlined in the Project and Investment Justification (PIJ) document approved by the Information Technology Authorization Committee (ITAC).

JCCR MEETING

At its July 27, 2006 meeting, the Joint Committee on Capital Review (JCCR) considered the following issues:

Cochise Community College District Bond Proposal – The Committee favorably reviewed the \$87.7 million general obligation (GO) bond issuance scheduled for the November 7 election, with the provision that the district return to the Committee for review prior to each actual bond issuance. The district plans to have 3 issuances, with an issuance occurring every 2 years. The issuance schedule includes \$25 million in FY 2007, \$40 million in FY 2009, and \$22.7 million in FY 2011, with final payoff in FY 2031. Overall, the issuances would increase the secondary property tax rate by an average of \$0.57. A total of 16 new projects and 5 renovation projects are planned for the district's 2 main campuses in Sierra Vista and Douglas, and 2 smaller facilities in Willcox and Benson.

Arizona State Schools for the Deaf and the Blind Capital Projects and Procurement Method – The Committee favorably reviewed the preliminary expenditure plan for the \$19 million capital appropriation and the use of the Construction Manager at Risk procurement method, with the provision that ASDB contract with a third party to assist with the project. ASDB will use the funding to construct a new Middle School and High School on the Phoenix campus, and construct a new Vocational Building, remodel the annex and install air conditioning in dorms at the Tucson campus. To the extent additional funding remains available, ASDB may also construct a new Student Health Center in Tucson and renovate existing space on the Phoenix campus. ASDB is required to submit the scope, purpose and estimated cost of the projects to the Committee before construction begins.

Arizona Department of Transportation FY 2007 Professional and Outside Services and Traffic Congestion Measures – The Committee favorably reviewed the use of up to \$34.6 million for consulting services expenditures through the end of October. The Committee intends to review the full year expenditure plan after it has had time to review the Auditor General report on Construction Management. The Committee also included a provision that ADOT report back on spending plans for Statewide Transportation Acceleration Needs Account monies by December 31, 2006, and adopted the highway congestion performance measures with the

stipulation that ADOT report on these performance measures as part of next year's review.

Arizona Department of Transportation FY 2007 Building Renewal – The Committee favorably reviewed the \$3,702,900 Building Renewal allocation plan, which includes \$3,627,100 from the State Highway Fund for 142 projects and contingencies, and \$75,800 from the State Aviation Fund for 1 project at the Grand Canyon Airport. The review included provisions related to reporting of transfers between projects, and allocations from contingency amounts.

Arizona Department of Administration FY 2006 Building Renewal Reallocations – The Committee favorably reviewed the reallocation of \$422,200 from FY 2006 building renewal to fund water leak repairs at the Capitol Center Building, completion of chiller replacements at the Department of Revenue building, and contingencies. The \$422,200 became available from projects that were completed under budget or funded with non-building renewal monies.

Arizona Department of Administration FY 2007 Building Renewal – The Committee favorably reviewed the \$7,249,200 Building Renewal allocation plan, which includes 12 projects plus emergencies and contingencies.

Arizona Department of Administration Energy Conservation Project – The Committee favorably reviewed the use of \$521,200 from ADOA's utility budget to fund energy conservation projects that include lighting controls, HVAC lockouts and vending misers to ensure these systems are only in operation when needed. ADOA estimates annual utility savings of \$300,200. ADOA also anticipates the projects to generate \$212,300 in rebates from the utility provider. The rebates will be returned to the utilities budget.

Arizona Department of Water Resources City of Williams Dam Repair – The Committee favorably reviewed the use of \$1.5 million appropriated to repair the City of Williams dam. Deficiencies to be addressed include stabilizing the dam wall and downstream slope, as well as fixing seepage and improving flood capacity. Local matching contributions of \$136,000 will also be applied to the project.

SUMMARY OF RECENT AGENCY REPORTS

AHCCCS – Semi-Annual Report on Healthcare Group – Pursuant to A.R.S. § 36-2912 AHCCCS is submitting its semi-annual report to the Committee on the number and types of businesses participating in Healthcare Group (HCG). This report also provides a description of HCG activities since its last semi-annual report submitted November 2005, AHCCCS reports that, as of June 13, 2006 total statewide HCG enrollment was 21,603, with participating members from 7,684 private employers and 13 political subdivisions. AHCCCS reports that since June 2005, enrollment has increased by 6,977 people, or 47.7%. AHCCCS' FY 2007 budget request projected June 2006 enrollment to come in at 32,000.

The AHCCCS submission also includes an update on the marketing activities AHCCCS is undertaking to promote Healthcare Group. In January 2006, HCG began offering optional dental and vision benefits to its members. As of June 13, 2006 13,336 members have chosen to pay for these optional benefits. An additional 476 individuals have signed up for only dental and/or vision coverage. Starting July 1, 2006 HCG will cover more preventative services. Since January 2006, HCG has held 26 training meetings for brokers on new HCG products with 10 of those meetings taking place in Pima and Maricopa Counties and the other 16 meetings being held in the northern counties. Of the approximately 3,100 new members since January 2006, brokers have brought 39%, or 1,212 of those members.

HCG notes that overall customer satisfaction has increased 7% from 73% in 2004 to 80% in 2005.

Attorney General – Quarterly Report on Expenditures from Appropriation for Crane Lawsuit – In September 2001, 7 school districts filed the Crane lawsuit, which claimed that the current Arizona school finance system is unconstitutional because it does not provide at-risk students with programs and funding needed in order to meet state academic standards. In FY 2004, the Legislature appropriated \$500,000 to the Attorney General for legal fees incurred by outside counsel in defending the state.

Pursuant to Laws 2003, 2nd Special Session, Chapter 4, the Office of the Attorney General is required to report on a quarterly basis to the JLBC the amount expended from the appropriation for the Crane lawsuit. As of June 30, 2006, a total of \$470,400 has been spent. Of this amount, \$461,400 was spent on outside legal services, \$4,500 was spent on expert witnesses, and \$4,500 was spent on external printing. The agency has not expended additional funds from the appropriation since last quarter's report. The remaining unexpended balance is \$29,600.

Department of Corrections – Report on Community Accountability Pilot Program – Laws 2004, Chapter 204 required ADC to establish a Community Accountability Pilot Program. Chapter 204 authorized the department to contract with a private or non-profit entity to provide supervision and treatment services for eligible offenders who have violated the terms and conditions of community supervision.

The department awarded the contract to Redman Investment Group and the program began on April 13, 2006. As of June 2006, a total of 17 eligible offenders were referred to the Community Accountability Pilot Program since program inception. Of those referred, 7 offenders, or 41%, were terminated from the program due to failed urinalysis tests, absconding, or failure to report to parole officers. To date, the program has provided 5,616 hours of electronic monitoring and program participants have spent 165.5 hours in programming and counseling services.

Department of Economic Security – Report on Arizona Training Program at Coolidge (ATP-C) Campus and Other Placements – Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) is reporting on placements of developmentally-disabled (DD) clients into state-owned ICF-MRs or at the ATP-C campus in FY 2006. DES reports that there were no placements of DD clients at the ATP-C campus, but that they made one new placement into the state-owned ICF-MR in Phoenix. The department placed this client in the state-owned ICF-MR at the request of the legal guardian. The client has been in state-operated group-homes since 1987 and was at the Arizona Training Program at Phoenix prior to that time.

Department of Economic Security – Report on Arizona Works Pilot Program – Pursuant to A.R.S. § 46-342, DES has provided reports submitted by MAXIMUS, the program contractor for the Arizona Works program, along with comparable DES data, for February and March 2006. This job placement pilot serves clients in District I-E, which generally covers the eastern part of Maricopa County.

In March 2006, MAXIMUS placed a total of 122 Arizona Works clients in full-time paid employment in District I-E, an (8)% decrease from the March 2005 figure of 133. (Over the same time period, the total number of District I-E Arizona Works clients placed by MAXIMUS in all new employment placements, including unpaid work experience and community service positions, decreased (3)%.) In March 2006, the number of DES JOBS clients placed in full-time paid employment in the rest of Maricopa County was 267, a decrease of (17)% from the 322 clients placed in March 2005. (Over the same time period, total DES JOBS clients placed in all new employment placements in the rest of Maricopa County, including unpaid work experience and community service positions, decreased (3)%.) Because of potential differences in the demographic and economic makeup of both regions, it is difficult to draw conclusions about the relative effectiveness of both programs from this data.

Department of Economic Security – Report on Use of New Domestic Violence Funding in FY 2006 – Pursuant to a General Appropriation Act footnote, DES is submitting its report to the Committee on the recipients and uses of the new \$1,500,000 General Fund appropriation to fund new domestic violence emergency shelter beds in FY 2006. Originally the appropriation was estimated to add only 75 additional beds, but local and private funds increased the number of beds added to 129. The \$1,500,000 was awarded to 8 provider organizations in 5 counties. From November 2005 to April 2006, 607 individuals have been served by these new beds.

Because FY 2006 reports are not yet complete, DES has indicated that it will submit an update on the new beds by October 1, 2006.

Department of Economic Security – Report on Use of State Share of Retained Earnings, Fees & Federal Incentives – A footnote in the General Appropriations Act allows the

Department of Economic Security (DES) to expend retained earnings, fees and federal incentives in the Division of Child Support Enforcement above the appropriated amount. The footnote also requires DES to report the intended use to the Legislature and the Governor's Office. DES reports that it intends to use \$500,000 plus federal matching monies above the appropriated \$13,197,800 to upgrade technology systems, increase employee training and add staff to increase customer service. DES reports that these uses will assist the agency in meeting federal performance measures.

Governor's Office of Strategic Planning and Budgeting – Report on Federal Revenue Maximization Initiative – Pursuant to a General Appropriation Act footnote, the Governor's Office of Strategic Planning and Budgeting (OSPB) has submitted its quarterly report on the status of a Federal Revenue Maximization Initiative.

The summary lists 10 ongoing projects, unchanged from the January report. OSPB reports that one ongoing project had new monetary developments from the prior report:

Medicare Part B: The Department of Health Services reported that it claimed a total of about \$335,000 in Medicare Part A and Part B revenues for the period covering October 1, 2003 through December 31, 2005 at Arizona State Hospital. The department expects to be current with billing at the end of FY 2006.

Department of Health Services – Arizona State Hospital Privatization Report – Laws 2005, Chapter 328 permitted the Department of Health Services (DHS) privatize the Arizona State Hospital (ASH) and required the agency to report to the Joint Legislative Budget Committee if DHS chose to move forward with privatization efforts.

DHS reports that they will not to privatize ASH at this time and cites 2 main reasons for this decision. First, DHS states that ASH already provides cost effective care in an efficient manner, noting that ASH recently received a favorable review and high marks for improvement and innovation from the Joint Commission on Accreditation of Healthcare Organizations.

The second reason not to privatize DHS cites is that there are barriers to privatizing ASH, including the location of the Hospital is on state trust land which must always be used for trust beneficiaries, the mentally ill in the state. Also, A.R.S. § 36-214 authorizes leases for 5 years with 2 five-year extensions and allows the state to cancel the contract after the first year, with no penalty to the state. DHS states that this is an impediment for a buyer or lessee of the hospital if they have significant capital or committed costs under the contract.

DHS suggests that the quality of care would likely decrease as a result of privatization due to cost cutting and that cuts are primarily made in staffing and using the least expensive medications, even if those medications are not clinically sound. DHS reports that private management of civil

psychiatric facilities, as well as prisons, generally results in the selection of patients or inmates based on cost of care. They also report that states which have recently privatized civil hospitals have seen mixed results and that actual cost savings promised to states are not as high as expected.

Department of Health Services – Report on Healthcare Licensure Backlog Funding – Pursuant to Laws 2005, Chapter 286, the Department of Health Services (DHS) submitted a report detailing the impact of the \$200,000 appropriation on healthcare licensure backlogs. The funding was used to address backlogs in 3 different program areas: the Office of Assisted Living Licensing, the Office of Behavioral Health Licensing, and the Office of Medical Facilities Licensing.

The largest backlog existed in Office of Assisted Living Licensing. As a result of the additional funding, 1200 renewal surveys were conducted in FY 2006, compared to 976 in FY 2005. The completion of additional surveys reduced the backlog in this office from 338 in July 2005 to 237 in May 2006.

The Office of Behavioral Health Licensing conducted 617 renewal surveys in FY 2006, 57 less than FY 2005; however, 168 of the surveys were conducted by seasonal employees funded through the \$200,000 appropriation. The office lost 10 permanent employees during this period. Backlogs were decreased slightly from 268 in FY 2005 to 203 in FY 2006.

The Office of Medical Facilities Licensing conducted 288 renewal surveys, 68 of which were completed by seasonal employees. The office conducted 240 renewal surveys in FY 2005. Backlogs remained approximately the same, but DHS states that the additional funding prevented an increase in the backlog.

State Mine Inspector – Report on Mined Land Reclamation Services – According to A.R.S. §§ 27-935 and 27-1234, the State Mine Inspector may contract with a private consultant in reviewing mined land reclamation plans for sand and gravel operations, as well as all other reclamation operations. The State Mine Inspector must then report to the JLBC any expenditures of money for this purpose, the name and address of each consultant, and the submitted plans of the consultants. There were no contracts with private consultants during FY 2006.

State Parks Board – Annual Report on Out of State Travel – Pursuant to a General Appropriation Act footnote, the State Parks Board is submitting a report of out of state travel expenses in FY 2006. The footnote stipulates that during FY 2006 and FY 2007, out of state travel expenses by State Parks Board staff shall not exceed \$5,000 each year from appropriated or non-appropriated monies.

Out of state travel expenses for State Parks Board staff for FY 2006 totaled \$4,500, so were within the \$5,000 limit. These out of state travel expenses were incurred primarily for attendance at conferences and meetings.

Department of Revenue – Report on Business Re-Engineering/Integrated Tax System (BRITS) – BRITS is the new computer system being implemented by the Department of Revenue (DOR) to integrate their separate tax systems, improve enforcement, and increase revenues to the state. Given the importance of this issue, in April 2003 the Appropriations Chairmen asked DOR to provide quarterly reports on the additional revenue received from implementing BRITS. The implementation of BRITS began in FY 2003 with the awarding of the contract to Accenture, LLP on August 20, 2002. Accenture is financing the cost of BRITS, and is paid from the increased revenues generated by BRITS.

The original contract called for BRITS to be completed in FY 2007. The BRITS conversion of corporate income tax has been delayed from September 2004 to August 2006, and the individual income tax has been delayed from September 2006 to an undetermined date.

During the last quarter, \$3.3 million was collected in BRITS revenue. In total, DOR reports \$132.5 million of total cumulative BRITS additional revenue through June 30, 2006 compared to a projected \$95.6 million, or \$36.9 million ahead of schedule.

Department of Revenue (DOR) – Report on Ladewig Expenditures – DOR reports monthly on the status of the Ladewig litigation. DOR's monthly status report shows expenditures of \$22,500 for Ladewig administrative costs in June 2006. FY 2006 Ladewig expenditures total \$57.8 million through June 2006, out of the \$58.3 million allocation. Any unused amounts revert to the General Fund. DOR's estimates a total cost of \$94.8 million in FY 2007 for the third and final year of payments required by the court settlement, including \$88.8 million for taxpayer payments which is due to the taxpayers by July 21, 2006.

Arizona State University – Arizona Historical Foundation Senator Barry Goldwater Papers Expenditure Plan – The FY 2007 General Appropriations Act provides a one-time increase of \$529,000 from the General Fund to the Main Campus of Arizona State University (ASU), allowing the Arizona Historical Foundation (AHF) to preserve the files of the late Senator Barry Goldwater. The budget includes a footnote requiring ASU to provide the AHF expenditure plan to JLBC before the foundation can spend the monies.

AHF, a non-profit archive housed in the Main Campus' Hayden Library, possesses 1,200 boxes of various media collected by Senator Goldwater. A contractor will digitize film reels and beta tapes, which were previously inaccessible due to a lack of viewing equipment, along with VHS tapes, to DVD over a 6 month period. Microfilm will be digitized to CD over 4 months. These DVD and CD records will then be available to researchers on a computer system at AHF.

AHF will scan print materials and photographs over 18 months and place that information on its website. AHF expects to complete the work by the end of 2007.

AHF does not plan to hire a new archivist for this project. Rather, the current archivist will process the Goldwater papers full time, while existing AHF staff and perhaps new ancillary staff cover vacated duties. The appropriated monies can accommodate these positions for up to 2 years.

The table below summarizes the presented budget for the \$529,000 appropriation.

AHF has requested that ASU deposit the funds into a private foundation account. AHF believes this arrangement will be more efficient than using ASU staff time to process payroll and purchase orders. Meanwhile, ASU prefers to set up a non-appropriated state fund for the foundation and to make 4 quarterly payments conditional upon status and expenditure updates from AHF.

Arizona Historical Foundation Senator Barry Goldwater Papers Expenditure Plan	
<u>Budget Item</u>	<u>Amount</u>
<i>Personal Services and ERE</i>	
1.5 FTE for up to 2 years	\$ 133,500
<i>Professional and Outside Services</i>	
Digitization & Preservation of Scrapbooks, Film, and Microfilm	326,000
<i>Other Operating Expenditures</i>	
Website Design and Maintenance	2,500
Storage	15,000
Archival Supplies	7,400
<i>Equipment</i>	
Computer System, Scanner, and Printer	8,200
Database and Search Software	12,000
Shelves (for Memorabilia)	7,000
Microfilm Reader and Printer	16,000
Film Freezer	1,000
Shrink Wrapper (for Memorabilia)	400
Total	\$ 529,000